

LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT  
ISSUED AUGUST 13, 2008

**LEGISLATIVE AUDITOR  
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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

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In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne “Skip” Irwin, Director of Administration, at 225-339-3800.

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LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

June 26, 2008

Independent Auditor's Report  
on the Financial Statements

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY**  
**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2007. These financial statements are the responsibility of management of the Louisiana Agricultural Finance Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Agricultural Finance Authority as of June 30, 2007, and changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Louisiana Agricultural Finance Authority did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on the Louisiana Agricultural Finance Authority cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2008, on our consideration of the Louisiana Agricultural Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

CGEW:THC:dl

LAF07

Management's discussion and analysis of the Louisiana Agricultural Finance Authority's financial performance presents a narrative overview and analysis of the authority's financial activities for the year ended June 30, 2007. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this information in conjunction with the authority's basic financial statements, which begins on page 9.

### **FINANCIAL HIGHLIGHTS**

- The authority's assets exceeded its liabilities at the close of fiscal year 2007 by \$38,402,308, which represents a 3.3% decrease from last fiscal year. The net assets decreased by \$1,295,019.
- The authority's operating revenue decreased by \$4,074,130 (or 34%) and the net results from activities decreased by \$11,510,590 (or 113%).

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

#### **Basic Financial Statements**

The basic financial statements present information for the authority, as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the authority's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the authority's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Governmental Accounting Standards Board 34.

## FINANCIAL ANALYSIS OF THE AUTHORITY

**Statement of Net Assets**  
**As of June 30, 2007 and June 30, 2006**  
(in thousands)

	<u>June 30, 2007</u>	<u>June 30, 2006 (Restated)</u>
Current and other assets	\$80,797	\$133,692
Capital assets	<u>37,597</u>	<u>37,909</u>
Total assets	<u>118,394</u>	<u>171,601</u>
Other liabilities	13,167	11,044
Long-term debt outstanding	<u>66,825</u>	<u>120,860</u>
Total liabilities	<u>79,992</u>	<u>131,904</u>
Net assets:		
Invested in capital assets, net of debt	28,761	29,461
Restricted	104	189
Unrestricted	<u>9,537</u>	<u>10,047</u>
Total net assets	<u><u>\$38,402</u></u>	<u><u>\$39,697</u></u>

Restricted net assets represent those assets that are not available for spending as a result of legislative requirements. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be used for.

**Statement of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the Years Ended June 30, 2007 and June 30, 2006**  
(in thousands)

	<u>June 30, 2007</u>	<u>June 30, 2006 (Restated)</u>
Operating revenues	\$7,756	\$11,917
Operating expenses	<u>(9,849)</u>	<u>(6,409)</u>
Operating income (loss)	(2,093)	5,508
Nonoperating revenues, net	<u>798</u>	<u>4,708</u>
Net increase (decrease) in net assets	<u><u>(\$1,295)</u></u>	<u><u>\$10,216</u></u>

Operating revenues decreased \$4,160,795 as a result of decreased intergovernmental revenues received from the Louisiana Department of Agriculture from the Licensing and Regulatory Board Fund and the Gaming Control Fund. Revenues received from these funds totaled

approximately \$0.8 million and \$2.6 million, respectively. In addition, the authority received state appropriations totaling \$570,000 and recorded an increase in use of money and property for interest revenues totaling \$1.8 million. Nonoperating revenues decreased by \$5,492,403. The majority of this decrease resulted from a gain on the sale of the Lacassine Syrup Mill (the mill) totaling \$4,690,928 recognized in fiscal 2006 with no similar sales occurring in fiscal 2007. The authority also recorded nonrecurring capital contributions totaling \$1,503,285 in fiscal 2006 for labor and travel costs incurred by the Louisiana Department of Agriculture for mill construction. The authority's total revenues decreased by \$8,070,747 (or 48.5%). The total cost of all programs and services increased by \$3,439,843 (or 53.7%).

**CAPITAL ASSETS**

At the end of 2007, the authority had \$37,596,827 invested in a broad range of capital assets, including land, buildings, equipment, and construction-in-progress. This amount represents a net decrease (including additions and deductions) of \$143,589 (or 0.4%) over the last year.

**Capital Assets at Year-End  
(Net of Depreciation, in thousands)**

	2007	2006 (Restated)
Land	\$6,633	\$6,632
Buildings and improvements	27,853	28,335
Equipment	1,555	1,784
Construction-in-progress	1,555	989
Total	\$37,596	\$37,740

**DEBT ADMINISTRATION**

The authority has \$74,899,593 of revenue bonds and notes outstanding at June 30, 2007, compared to \$76,790,748 last year, a decrease of 2.5%. The authority does not have general obligation bonds, and the revenue bonds were private placement bonds that do not require rating.

The authority had no claims and judgments at current year-end or prior year-end.

**CONTACTING THE LOUISIANA AGRICULTURAL  
FINANCE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide residents, taxpayers, customers, and investors and creditors with a general overview of the Louisiana Agricultural Finance Authority's finances and to show the authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Corinne Brousseau, Louisiana Department of Agriculture and Forestry, Post Office Box 631, Baton Rouge, Louisiana 70821-0631.

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**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
PROPRIETARY FUND TYPE - ENTERPRISE FUND**

**Statement of Net Assets, June 30, 2007**

**ASSETS**

Current assets:

Due from primary government (note 10)	\$15,749,959
Interest receivable	100,000
Unamortized debt issue costs	44,371
Other current assets	300,000
Total current assets	<u>16,194,330</u>

Noncurrent assets:

Restricted assets:

Cash (note 2)	2,355,382
Accounts receivable (net)	164,134
Interest receivable	1,715,936
Notes receivable (note 3)	60,000,000
Unamortized debt issue costs	366,747
Property, plant, and equipment (net of depreciation) (note 4)	37,596,827
Other noncurrent assets	900
Total noncurrent assets	<u>102,199,926</u>

**TOTAL ASSETS**

118,394,256

**LIABILITIES**

Current liabilities:

Accounts payable	769,263
Liabilities payable from restricted assets	271,679
Due to federal government	59,986
Deferred revenue	1,500
Bonds payable (note 6)	300,000
Notes payable (note 6)	7,891,155

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
PROPRIETARY FUND TYPE - ENTERPRISE FUND  
Statement of Net Assets, June 30, 2007**

**LIABILITIES (CONT.)**

## Current liabilities: (Cont.)

Accrued interest on notes payable	\$739,127
Accrued interest on bonds payable	2,723,433
Obligations under capital leases (note 5)	110,706
Other current liabilities	300,000
Total noncurrent liabilities	<u>13,166,849</u>

## Noncurrent liabilities:

Bonds payable (note 6)	60,308,438
Notes payable (note 6)	6,400,000
Obligations under capital leases (note 5)	116,661
Total noncurrent liabilities	<u>66,825,099</u>

**TOTAL LIABILITIES**

79,991,948

**NET ASSETS**

Invested in capital assets, net of related debt	28,760,605
Restricted for federal grants	104,430
Unrestricted	9,537,273
	<u>9,537,273</u>

**TOTAL NET ASSETS**

\$38,402,308

(Concluded)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
PROPRIETARY FUND TYPE - ENTERPRISE FUND**

**Statement of Revenues, Expenses,  
and Changes in Net Assets  
For the Year Ended June 30, 2007**

**OPERATING REVENUES:**

Rental income pledged as security for revenue bonds	\$1,867,351
Intergovernmental (note 12)	4,009,845
Use of money and property	1,840,086
Other	38,911
Total operating revenues	<u>7,756,193</u>

**OPERATING EXPENSES:**

Administrative	426,495
Contractual services	681,473
Operating services	1,156,292
Supplies	341,585
Professional services	364,995
Amortization of bond issuance costs (note 6)	42,271
Interest expense	4,874,695
Depreciation expense	1,946,158
Other	14,745
Total operating expenses	<u>9,848,709</u>

**OPERATING LOSS** (2,092,516)

**NONOPERATING REVENUES (Expenses)**

Capital contributions	186,294
Gain on disposal of fixed assets	470,000
Nonoperating revenue - federal revenues	7,550,615
Nonoperating expense - federal expenses	<u>(7,409,412)</u>

**Net nonoperating revenues** 797,497

**Change in net assets** (1,295,019)

**NET ASSETS - BEGINNING OF YEAR, Restated (note 9)** 39,697,327

**TOTAL NET ASSETS AT END OF YEAR** \$38,402,308

The accompanying notes are an integral part of this statement.

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**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
PROPRIETARY FUND TYPE - ENTERPRISE FUND**

**Statement of Cash Flows  
For the Year Ended June 30, 2007**

**Cash flows from operating activities:**

Cash received from customers	\$6,045,080
Cash payments to suppliers for goods and services	(5,926,301)
Net cash provided by operating activities	<u>118,779</u>

**Cash flows from noncapital financing activities:**

State appropriations	570,000
Principal paid on notes payable	(7,891,155)
Public Assistance program receipts	7,497,665
Public Assistance program disbursements	(7,409,412)
Receipts from Louisiana Department of Agriculture for Boll Weevil Eradication Program	5,770,753
Payments to Louisiana Department of Agriculture	(1,224,323)
Other	(401,217)
Net cash used by noncapital financing activities	<u>(3,087,689)</u>

**Cash flows from capital and related financing activities:**

Proceeds from issuance of bonds	6,000,000
Acquisition/construction of capital assets	(2,977,237)
Proceeds from sale of capital assets	336,764
Other	(72,517)
Net cash provided by capital and related financing activities	<u>3,287,010</u>

Net increase in cash and cash equivalents	318,100
Cash and cash equivalents at beginning of year	<u>2,037,282</u>
Cash and cash equivalents at end of year	<u><u>\$2,355,382</u></u>

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
PROPRIETARY FUND TYPE - ENTERPRISE FUND  
Statement of Cash Flows, 2007**

**Reconciliation of Operating Loss to Net Cash**

**Provided by Operating Activities:**

Operating loss	<u>(\$2,092,516)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	1,988,429
Changes in assets and liabilities:	
(Increase) in receivables	(159,834)
Decrease in due from other funds	255,143
(Increase) in other assets	(1,815,936)
(Decrease) in accounts payable	(721,386)
Increase in due to other funds	164,134
Increase in deferred revenue	1,500
Increase in other liabilities	<u>2,499,245</u>
Total adjustments	<u>2,211,295</u>
Net cash provided by operating activities	<u><u>\$118,779</u></u>

**Schedule of Noncash Investing, Capital, and Financing Activities:**

Contributions of fixed assets	\$130,771
Asset trade-ins	\$135,500
Disposal of fixed assets	\$61,050

(Concluded)

The accompanying notes are an integral part of this statement.

## **INTRODUCTION**

The Louisiana Agricultural Finance Authority (authority) is a component unit of the State of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 3:261-284, within the Department of Agriculture and Forestry, State of Louisiana, and is domiciled in East Baton Rouge Parish. The authority consists of nine members, one of whom is the commissioner of the Department of Agriculture and Forestry and eight members appointed by the governor. The members may receive a per diem not to exceed \$40 per meeting, plus mileage expenses. The authority has no employees. Employees of the Department of Agriculture and Forestry perform the administrative and accounting functions of the authority.

The authority was established to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation of new loans and to supervise and use public employees, equipment, and material in carrying out public work. The bonds are limited special obligations of the authority and do not constitute a general, special, or moral obligation of the State of Louisiana. In addition, the authority can issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building and connected related facilities for use by the Department of Agriculture and Forestry in connection with the promotion and assistance of agriculture and forestry within the state. The revenue bonds are limited obligations of the authority and do not constitute a debt of the State of Louisiana. Upon termination of the authority by law, R.S. 3:283 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. BASIS OF PRESENTATION**

The accompanying basic financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting principles and financial reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The authority applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In accordance with policies established by the Division of Administration, the authority has elected to follow GASB pronouncements issued after November 30, 1989, rather than FASB pronouncements.

#### **B. REPORTING ENTITY**

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The authority is considered a component unit of the State of Louisiana because the state exercises oversight responsibility in that the governor appoints eight of the nine authority members and is able to impose his will on the

authority. The accompanying financial statements present only the activity of the authority. Annually, the State of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements.

**C. FUND ACCOUNTING**

All activities of the authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**D. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Assets.

Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of the authority is rental fees for office space and intergovernmental revenue from the Department of Agriculture and Forestry. Operating expenses include administrative expenses, interest, and depreciation on capital assets.

**E. BUDGET PRACTICES**

The authority does not adopt a formal budget on a fiscal basis.

**F. CASH**

Cash represents amounts in demand deposits and amounts on deposit with the fiscal agent bank. Under state law, the authority may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the authority may invest in time certificates of deposit of state banks organized under the laws of the State of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state chartered credit unions.

**G. CAPITAL ASSETS**

Property and equipment are valued at historical cost except for donated capital assets, which are recorded at their estimated value at the time of donation. Equipment includes all items valued at or above \$5,000. Depreciation of all exhaustible capital assets of the authority is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	40
Equipment	5 or 10

**H. COMPENSATED ABSENCES, PENSION BENEFITS, AND POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

The authority has no employees. Department of Agriculture and Forestry employees perform the administrative and accounting functions for the authority. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the authority.

**I. LONG-TERM OBLIGATIONS**

Bond issuance costs are reported and amortized over the life of the bonds. Capital leases are reported at the present value of net minimum lease payments.

**J. NET ASSETS**

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets subject to external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of all other net assets that are not included in the other categories previously mentioned.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the authority's policy is to first apply the expense toward restricted resources, then toward unrestricted resources.

**2. CASH**

For reporting purposes, cash represents amounts in interest-bearing demand deposits and amounts on deposit with the fiscal agent bank. At June 30, 2007, the authority has cash deposits (book balances) of \$2,355,382 as follows:

Interest-bearing demand deposits	\$355,231
Cash with fiscal agent	<u>2,000,151</u>
Total	<u><u>\$2,355,382</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the authority's deposits may not be recovered. Under state law, the authority's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the authority or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

The following is a breakdown by banking institution and amount of the collected bank balances:

<u>Banking Institution</u>	<u>Program or Type</u>	<u>Amount</u>
Capital One - Demand Account	Operating Account	\$69,291
AmSouth - Demand Account	Operating Account	552,004
Hancock Bank - Fiscal Agent	Investment Account	<u>2,975,829</u>
Total		<u><u>\$3,597,124</u></u>

### 3. NOTES RECEIVABLE

At June 30, 2006, the authority recorded a capital lease totaling \$60 million for the lease of the Lacassine Syrup mill (mill) to the Lake Charles Cane-Lacassine Mill, LLC (LLC). The LLC leased the mill and certain equipment from the authority for \$60 million plus annual interest of 3%. Included in the agreement was an operating lease for land on which the mill was constructed. The term of the lease agreement was from June 29, 2006, to December 31, 2051. The authority reported the transaction as a capital lease at June 30, 2006.

The authority granted the LLC an option to purchase the mill at any time during the term of the agreement. On November 2, 2006, the LLC exercised the option to purchase the mill for \$60 million plus accrued interest from June 29, 2006, through November 2, 2006, and the authority financed the purchase with the issuance of a \$60 million promissory note bearing interest of 3% per year. The note's terms are identical to the June 29, 2006, lease's terms. In addition, the authority amended the land portion of the operating lease to include a 55-year second term. Beginning with the second term, land lease payments will be \$500 per acre per year and will increase to \$2,500 per acre per year following any year in which the mill is idle for more than one-half of the sugarcane harvest season for reasons controlled by the LLC. The capital lease has been removed from the June 30, 2007, financial statements, and the authority has recorded the \$60 million promissory note as a note receivable.

### 4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2007, follows:

	Beginning Balance July 1, 2006	Adjustments	Restated Beginning Balance July 1, 2006	Additions	Deletions	Ending Balance June 30, 2007
Capital assets not being depreciated:						
Land	\$6,632,472		\$6,632,472	\$303		\$6,632,775
Construction-in-progress	950,772	\$37,888	988,660	3,738,389	(\$3,171,724)	1,555,325
Total capital assets not being depreciated	<u>7,583,244</u>	<u>37,888</u>	<u>7,621,132</u>	<u>3,738,692</u>	<u>(3,171,724)</u>	<u>8,188,100</u>
Capital assets being depreciated:						
Buildings	30,143,471	(223,824)	29,919,647	649,926		30,569,573
Land improvements	7,089,314	(4,714)	7,084,600			7,084,600
Equipment	6,501,458	1,687	6,503,145	2,615,969	(2,910,432)	6,208,682
Total capital assets being depreciated	<u>43,734,243</u>	<u>(226,851)</u>	<u>43,507,392</u>	<u>3,265,895</u>	<u>(2,910,432)</u>	<u>43,862,855</u>
Less accumulated depreciation for:						
Buildings	(6,975,175)	(577,948)	(7,553,123)	(776,070)		(8,329,193)
Land improvements	(674,464)	(441,642)	(1,116,106)	(355,261)		(1,471,367)
Equipment	(4,176,862)	(542,017)	(4,718,879)	(814,827)	880,138	(4,653,568)
Total accumulated depreciation	<u>(11,826,501)</u>	<u>(1,561,607)</u>	<u>(13,388,108)</u>	<u>(1,946,158)</u>	<u>880,138</u>	<u>(14,454,128)</u>
Total capital assets (net)	<u>\$39,490,986</u>	<u>(\$1,750,570)</u>	<u>\$37,740,416</u>	<u>\$5,058,429</u>	<u>(\$5,202,018)</u>	<u>\$37,596,827</u>

Information relating to construction-in-progress follows:

<u>Project</u>	<u>Costs to Date</u>	<u>Estimated Completion Date</u>	<u>Estimated Cost to Complete</u>
Baton Rouge fence	\$711	3/1/2008	\$20,000
Haughton fence	4,421	3/30/2008	100,000
Jena project	144,166	4/1/2008	350,000
Woodworth office building	654,584	12/31/2008	1,000,000
Homer fence	33,128	9/30/2007	
Oberlin office building	710,327	9/30/2007	
Zachary project	7,988	9/14/2007	
Total	<u>\$1,555,325</u>		<u>\$1,470,000</u>

## 5. LEASES

### A. Capital Leases

The authority has entered into lease agreements for financing the acquisition of equipment. Capital leases are recognized in the accompanying financial statements. The amounts to be accrued for capital leases and the disclosures required for capital and operating leases by the National Council on Governmental Accounting Statement No. 5, as adopted by the GASB, and FASB 13 are reported on the following schedules:

<u>Nature of Lease</u>	<u>Date of Lease</u>	<u>Last Payment Date</u>	<u>Remaining Interest to End of Lease</u>	<u>Remaining Principal to End of Lease</u>
Equipment	3/29/2007	8/1/2009	<u>\$12,643</u>	<u>\$227,367</u>

The assets acquired through capital leases are as follows:

Equipment	\$893,080
Less - accumulated depreciation	<u>(389,540)</u>
Total	<u>\$503,540</u>

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2007:

<u>Year Ending June 30,</u>	
2008	\$120,004
2009	<u>120,006</u>
Total minimum lease payments	240,010
Less - amounts representing executory costs	<u>NONE</u>
Net minimum lease payments	240,010
Less - amounts representing interest	<u>(12,643)</u>
Present value of net minimum lease payments	<u><u>\$227,367</u></u>

**B. Operating Leases**

The total payments for operating leases, consisting of land and office space leases, during the fiscal year 2006-2007 amounted to \$39,713. The following is a schedule by years of future minimum annual rental payments required under operating leases:

<u>Year ending June 30,</u>	<u>Office Space</u>	<u>Land</u>	<u>Total Minimum Payments Required</u>
2008	\$38,513	\$1,200	\$39,713
2009	<u>16,047</u>	<u>1,200</u>	<u>17,247</u>
Total	<u><u>\$54,560</u></u>	<u><u>\$2,400</u></u>	<u><u>\$56,960</u></u>

**C. Lessor - Operating Leases**

When a lease agreement does not satisfy at least one of the four criteria (common to both lessee and lessor accounting) and both of the criteria for a lessor (collectibility and no uncertain reimbursable costs), the lease is classified as an operating lease. In an operating lease, there is no simulated sale, and the lessor simply records rent revenues as they become due. The following property is on lease or held for leasing as of June 30, 2007:

NOTES TO THE FINANCIAL STATEMENTS

	Cost	Accumulated Depreciation	Carrying Amount
Buildings	\$12,510,081	(\$3,924,949)	\$8,585,132
Land	471,852		471,852
Total	\$12,981,933	(\$3,924,949)	\$9,056,984

The following is a schedule by year of minimum future rentals on noncancelable operating leases as of June 30, 2006:

Year Ending June 30,	Amount
2008	\$1,528,197
2009	1,142,997
2010	1,142,997
2011	1,142,997
2012	1,142,997
2013-2017	5,672,129
2018-2022	2,035,275
2023-2027	439,275
2028-2032	439,275
2033-2037	439,275
2038-2042	439,275
2043-2047	439,275
2048-2052	292,850
Total	\$16,296,814

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2007.

**6. LONG-TERM LIABILITIES**

The following is a summary of long-term debt transactions of the authority for the year ended June 30, 2007:

	Balance <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2007</u>	Amounts Due Within <u>One Year</u>
Bonds, notes, and capital leases payable:					
Notes payable	\$22,182,310		(\$7,891,155)	\$14,291,155	\$7,891,155
Bonds payable	54,608,438	\$6,000,000		60,608,438	300,000
Capital lease obligations	243,398	506,195	(522,226)	227,367	110,706
Total	<u>\$77,034,146</u>	<u>\$6,506,195</u>	<u>(\$8,413,381)</u>	<u>\$75,126,960</u>	<u>\$8,301,861</u>

Notes Payable

On June 30, 2007, the authority had Series 2006 and 2006B notes outstanding, totaling \$7,891,155 and \$6,400,000, respectively. The proceeds from the issuance of the notes are to be used to support the Boll Weevil Eradication Program. The notes are to be paid from the avails of net slot machine proceeds collected pursuant to R.S. 27:292(B)(4). The interest rate on the notes is variable, equal to the 30-day London InterBank Offered Rate (LIBOR) plus 75 basis points for the Series 2006 notes and 30-day LIBOR plus 125 basis points for the Series 2006B notes. LIBOR is the rate at which deposits of United States dollars are offered in the London interbank market for certain set interest periods. Interest will be calculated on the basis of a 360-day year based on actual days elapsed.

The annual requirements to amortize all notes outstanding for the authority at June 30, 2007, including interest outstanding of \$1,255,953, are as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$7,891,155	\$867,473	\$8,758,628
2009	6,400,000	388,490	6,788,490
Total	<u>\$14,291,155</u>	<u>\$1,255,963</u>	<u>\$15,547,118</u>

Bonds Payable

Debt issued by the authority for which the authority and/or the government have responsibility for repayment in the event of default is recorded in the financial statements and is comprised of the following issues:

NOTES TO THE FINANCIAL STATEMENTS

Issued for	Date Issued	Original Issue	Outstanding June 30, 2006	Issued (Redeemed)	Outstanding June 30, 2007	Maturity Date	Interest Rates
Series 2004 - Lacassine Syrup Plant	3/2/2004	\$45,000,000	\$45,000,000		\$45,000,000	9/15/2015	variable
Series 2006:							
Building projects	3/30/2006	3,804,219	3,804,219		3,804,219	9/15/2012	variable
Building projects	3/30/2006	3,804,219	3,804,219		3,804,219	9/15/2012	variable
Series 2006 B	4/27/2006	2,000,000	2,000,000		2,000,000	9/15/2012	variable
Series 2007:							
Building projects and equipment purchases	3/26/2007	<u>6,000,000</u>		<u>\$6,000,000</u>	<u>6,000,000</u>	9/15/2026	variable
Total		<u>\$60,608,438</u>	<u>\$54,608,438</u>	<u>\$6,000,000</u>	<u>\$60,608,438</u>		

Debt service requirements to maturity are as follows:

<u>Fiscal year ending</u>	Interest Rate			Total
	<u>Swap</u>	<u>Principal</u>	<u>Interest</u>	
2008	\$229,500	\$300,000	\$3,180,800	\$3,710,300
2009	229,500	2,221,688	3,164,690	5,615,878
2010	229,500	8,651,687	3,059,260	11,940,447
2011		8,651,688	2,609,182	11,260,870
2012		8,651,687	2,159,104	10,810,791
2013-2017		29,131,688	4,580,806	33,712,494
2018-2022		1,500,000	644,400	2,144,400
2023-2027		<u>1,500,000</u>	<u>241,650</u>	<u>1,741,650</u>
Total	<u>\$688,500</u>	<u>\$60,608,438</u>	<u>\$19,639,892</u>	<u>\$80,936,830</u>

On March 26, 2007, the authority issued \$6,000,000 in Series 2007 revenue bonds. The proceeds will be used for the purpose of renovating, acquiring, constructing and equipping Louisiana Department of Agriculture and Forestry (LDAF) office space and facilities across the state, acquiring forestry firefighting equipment, acquiring and installing emergency generators, and paying the cost of issuing the bonds. The bonds are secured by revenues from a lease agreement between the authority and LDAF. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. The initial interest rate on the bonds is fixed at 5.37% until September 15, 2012, and then will be adjusted on September 15, 2012; September 15, 2017; and September 15, 2022, to 65% of the then applicable swap rate plus 198 basis points.

Unamortized bond issuance costs associated with the Series 2007 revenue bonds include legal and other fees. The original issuance costs were \$58,000. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2007, is \$57,255. The bond issuance costs amortized in fiscal year 2007 were \$745.

The Series 2006 and Series 2006B revenue bonds are secured by income and revenues in the Feed, Fertilizer, and Pesticide Funds (License and Regulatory Boards Funds Account). The interest rate on the bonds is variable and is calculated by multiplying LIBOR by 65% and adding 119 basis points. Interest is calculated on the basis of a 360-day year based on actual days elapsed.

Unamortized bond issuance costs associated with the Series 2006 and 2006B revenue bonds include legal and other fees. The original issuance costs were \$11,317. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2007, is \$9,126. The bond issuance costs amortized in fiscal year 2006-2007 were \$1,750.

The Series 2004 Lacassine Syrup Plant revenue bonds totaling \$45,000,000 are secured by the net revenues from the operation of the facilities and the avails of the net slot machine proceeds described in R.S. 27:392(B)(4). In addition, the authority obtained a nonrevocable, direct-pay letter of credit to provide credit support on the bonds. The bonds may be fixed per annum (term) or fluctuating per annum (weekly) rate bonds bearing interest at a rate not exceeding 12% per annum. Interest at the weekly rate and interest at the term rate for any period of one year or less is computed on the basis of a 365 or 366-day year. Interest at the term rate for any period of more than one year is computed on the basis of a 360-day year with 12 months of 30 days each.

Unamortized bond issuance costs associated with the Series 2004 revenue bonds include legal and other fees. The original issuance costs were \$307,326 and the bonds were issued at a discount of \$170,000. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2007, is \$221,958. The bond issuance costs amortized in fiscal year 2007 were \$25,610. The balance of unamortized bond discount at June 30, 2007, is \$122,778. The bond discount amortized in fiscal year 2007 was \$14,167.

### Capital Lease Obligations

Capital lease obligations at June 30, 2006, of \$227,367 are detailed in note 5-A.

## **7. INTEREST RATE SWAP AGREEMENT**

The authority has entered into an interest rate swap agreement with AmSouth Bank to reduce the impact of changes in interest rates on its Series 2004 variable rate demand revenue bonds. As of June 30, 2007, \$45,000,000 in outstanding bonds was recorded as a liability in the financial statements.

**Objective of the interest rate swap:** As a means of lowering its borrowing costs, the authority entered into the interest rate swap agreement, the intention of which was to effectively change the authority's variable interest rate on the bonds to a fixed rate of 5.87% for the duration of the agreement.

**Terms:** The Master Swap Agreement, dated July 14, 2006, and effective July 18, 2006, has a notional amount of \$45,000,000 and terminates on September 15, 2009. The swap's notional amount matches the principal amount of the variable-rate bonds. Under the swap, the authority pays AmSouth Bank an annual interest payment computed at a fixed rate of 5.87% and receives a variable interest payment computed monthly based on a one-month LIBOR weighted average.

**Fair Value:** The fair value of the swap agreement as of June 30, 2007, is a negative \$2,361,894, which is not reported in the financial statements. The fair value was estimated using proprietary models of expected cash flows based upon the closing mid-market market rate/price environment of June 29, 2007.

**Credit Risk:** Credit risk is the risk that the counterparty will not fulfill its obligations. At June 30, 2007, the authority is not exposed to credit risk because the swap has a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the authority would be exposed to credit risk in the amount of the swap's fair value.

**Basis Risk:** Basis risk is the risk that arises when variable interest rates on a swap and the associated debt are based on different indexes. The interest rates for both the swap and the bonds are based on LIBOR; therefore, the authority is not subject to basis risk.

**Termination Risk:** The authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap agreement may be terminated if either party fails to make payment, when due, under the swap agreement; breaches the agreement; made or repeated or deemed to have made or repeated a misrepresentation; bankrupts; or merges without assumption or commits an illegality. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the authority would be liable to the counterparty for a payment equal to the swap's fair value.

**Rollover Risk:** Rollover risk is the risk that the swap does not extend to the maturity of the associated debt. The authority is exposed to rollover risk because the swap terminates before the maturity of the associated bond. When the swap terminates, the authority will not realize the synthetic rate offered by the swap on the bonds. The swap terminates on September 15, 2009, and the bonds mature on September 15, 2015.

## 8. CONDUIT DEBT OBLIGATIONS

In August 1995, the GASB issued Interpretation No. 2 (Disclosure of Conduit Debt Obligations). Governmental entities may enter into arrangements whereby a nongovernmental entity is able to finance the acquisition of facilities by issuing conduit debt obligations, which the GASB describes as follows:

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity.

The GASB concluded that conduit debt does not create a liability and, therefore, does not have to be presented on the governmental entity’s financial statements.

The authority is authorized by R.S. 3:266 to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation on new loans. During 1986, the authority issued two bond issues (1986A I and 1986A II) totaling \$300,000,000 that are currently in default.

Debt issued by the authority for which the authority and the government have no responsibility for repayment is not recorded in the accompanying financial statements and is comprised of the following issues:

<u>Issued for</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Dates</u>	<u>Authorized and Issued</u>	<u>Retired to Date</u>	<u>Outstanding June 30, 2007</u>
Agricultural Loan Program:	8.25%	1986A I	various	\$150,000,000	\$107,938,898	\$42,061,102
	8.80%	1986A II	various	<u>150,000,000</u>	<u>105,653,156</u>	<u>44,346,844</u>
Total				<u>\$300,000,000</u>	<u>\$213,592,054</u>	<u>\$86,407,946</u>

Both of the 1986 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and from certain agricultural loans permitted under the financing program. The commissioner of insurance from the state of California placed Executive Life Insurance Company into conservatorship on April 11, 1991. Both of the 1986 series bonds subsequently defaulted.

Trustees of the two 1986 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions on behalf of bondholders under a modified plan of rehabilitation for Executive Life Insurance Company. Distributions through the fiscal year ended June 30, 2007, under the modified plan, including interest, total \$154,523,387 for the LAFA I bonds and \$154,226,287 for the LAFA II bonds. These distributions include court-ordered trust administration costs of \$4,693,794 for the LAFA I bonds and \$4,693,525 for the LAFA II bonds. Principal and interest of \$107,938,898 and \$41,890,695, respectively, have been paid for the LAFA I series bonds, and principal and interest of \$105,653,156 and \$43,879,606, respectively, have been paid for the LAFA II series bonds. Under the plan, distributions can continue until the conservator declares that they are complete or the modified plan has expired.

**9. NET ASSETS RESTATED**

The beginning net assets as reflected on Statement B have been restated to reflect the following adjustments:

Net assets, June 30, 2006	\$41,193,113
Corrections to capital assets	(1,582,451)
Corrections to beginning cash balances	<u>86,665</u>
Net assets at June 30, 2006, as restated	<u><u>\$39,697,327</u></u>

**10. DUE FROM PRIMARY GOVERNMENT**

At June 30, 2007, the authority has amounts due to/from the primary government for the following:

<u>Source</u>	<u>Total</u>
Department of Agriculture and Forestry:	
Boll Weevil Eradication Program - repayment of loans*	\$11,566,518
Repayment of bond proceeds	3,654,168
Federal grants	555,406
Repayments to projects	119,420
Repayment for electrical worker salaries	7,867
Due to other funds	(164,134)
Department of Social Services - lease payments on office space	<u>10,714</u>
Total due from primary government	<u><u>\$15,749,959</u></u>

\*The LDAF funds the loan repayments from the net slot machine proceeds collected pursuant to R.S. 27:392(B)(4).

**11. RISK MANAGEMENT**

The authority is exposed to various risks of losses related to general liability: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The authority is a party to various legal proceedings incidental to its business but is not involved in litigation seeking damages. In the opinion of management, all such matters are adequately covered by insurance purchased from the Office of Risk Management and are not expected to have a material effect on the financial statements.

The authority entered into a contract with Arkel Sugar Incorporated (Arkel) to provide engineering services related to the Lacassine Syrup Mill (mill). Arkel has filed a lawsuit against the authority contending that certain design services performed by Arkel were not in the scope of work under the contract and that Arkel should be paid an additional \$609,573 for the services. The authority contends that the design work was within the scope of the contract and that the contract had a cap amount within which Arkel agreed to do all necessary work and is therefore not entitled to any additional compensation. There is a reasonable possibility of an unfavorable outcome. The estimated potential loss is \$450,000.

During the past three years, there were no claims against the authority that exceeded insurance coverage. During the year ended June 30, 2007, a total of \$256,493 was expended for legal services.

On November 3, 2006, the Lake Charles Cane-Lacassine Mill, LLC (LLC) received a \$4,000,000 line of credit from Jeff Davis Bank and Trust Company at a fixed rate of 7% per annum for the purposes of obtaining operating capital and making modifications to the mill. Pursuant to R.S. 3:262 through 3:283, the authority guaranteed the loan. The loan will be considered funded at the end of the first year. The loan will then be converted to a five-year loan, with payments of principal and accrued interest due in installments every 12 months thereafter.

If the LLC fails to pay an installment, the authority will pay Jeff Davis Bank the amount of the installment not paid by the LLC no later than 10 days from the date that the installment was due. If the authority fails to pay an installment on or before the date set forth in the agreement, Jeff Davis Bank may declare the loan to be in default and place the mill and the authority in default, after which time the authority will be liable for all amounts due under the loan. The term of the agreement and the authority's guarantee will be effective until the loan is paid in full or 10 years from the effective date of the agreement, whichever occurs first.

**12. INTERGOVERNMENTAL REVENUES**

During the fiscal year ended June 30, 2007, the authority received intergovernmental revenues from the primary government as follows:

<u>Source</u>	<u>Amount</u>
Department of Agriculture and Forestry:	
Gaming Control Fund	\$2,608,845
Licensing and Regulatory Board	831,000
State General Fund	70,000
Statutory Dedicated Revenue	500,000
	<hr/>
Total	<u>\$4,009,845</u>

**13. SUBSEQUENT EVENTS**

On October 30, 2007, the authority issued series 2007 bonds totaling \$31,000,000 for the purpose of acquiring, demolishing, constructing and installing a building for use as offices of LDAF and other related uses and acquiring bulldozers, trucks and other equipment to be used by LDAF for firefighting and other agricultural purposes together with payments for planning and design costs. The remainder of the proceeds will be used to fund a debt reserve totaling \$3,100,000 and to pay the bond issuance costs.

**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

The following pages contain our report on internal control over financial reporting and on compliance with laws and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.





LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

June 26, 2008

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards*

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the basic financial statements of the Louisiana Agricultural Finance Authority (authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2007, and have issued our report thereon dated June 26, 2008. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the following paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

### **Inaccurate and Incomplete Annual Fiscal Report**

For the second consecutive year, the Louisiana Agricultural Finance Authority (LAFA) did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended June 30, 2007. As authorized by Louisiana Revised Statute 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Accounting and Reporting Policy (OSRAP) prescribes the content and format for the preparation of each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) and LAFA's separately issued financial statements in accordance with accounting principles generally accepted in the United States of America. Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, LAFA's AFR submitted to OSRAP and the Office of Legislative Auditor (OLA) on August 30, 2007, included the following errors and omissions:

LAFA incorrectly reported cash balances, interest receivable on its note receivable, accrued interest on bonds payable, and amounts due to/from federal grants and the Louisiana Department of Agriculture and Forestry (LDAF), resulting in the following errors on its Statement of Net Assets (SNA) and on its Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA):

#### SNA:

- Assets were understated by \$2,835,063.
- Liabilities were understated by \$4,166,588.
- Net assets were overstated by \$1,331,525.

#### SRECNA:

- Revenues were understated by \$5,541,957.
- Expenses were understated by \$6,960,147.

LAFAs classified and reported federal grants incorrectly on its Statement of Cash Flows as follows:

- Federal grant revenues were understated by \$5,504,764.
- Federal grant expenses were understated by \$5,593,017.

LAFAs did not ensure that its footnote disclosures were consistent with the amounts presented in the financial statements, resulting in the following errors in the disclosures:

- Total collected bank balances (note 2) were understated by \$1,007,838.
- Total interest paid on bonds (note 5) was overstated by \$2,233,002.
- Total net cash flows on an interest rate swap agreement (note 5) was understated by \$688,500.
- Due from LDAF, the primary government (note 9) was understated by \$2,466,548.

Management has not ensured that LAFAs AFR was properly prepared and reviewed for errors and misclassifications. Failure to submit an accurate AFR could delay the compilation and issuance of the state's CAFR and LAFAs audited financial statements. Furthermore, misstatements from errors or fraud may occur and remain undetected.

Management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP and OLA. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 1).

#### **Inadequate Internal Control Over Financial Accounting Operations**

LAFAs has not maintained adequate internal control over its financial accounting operations. Good internal control includes ensuring that LAFAs (1) performs effective supervisory reviews of transactions; (2) records transactions accurately and maintains adequate support for those transactions; (3) records transactions timely; and (4) appropriately bills for the services it provides. Our audit disclosed the following deficiencies in internal control over the financial accounting operations:

- LAFAs does not review and approve monthly bank reconciliations, which would ensure that transactions are recorded in the accounting records timely. Of 21 deposits tested, LAFAs posted two (10%) deposits for \$114,328 and \$4,512,500 to its general ledger 19 and 34 days after the funds were deposited into the bank account, respectively.

- LAFAs does not ensure that its accountant receives copies of monthly bank statements for bond proceeds, its letter of credit, and the interest rate swap on the Series 2004 bonds. In addition, LAFAs chief fiscal officer did not monitor the authority's interest rate swap activity and interest payments made for the Series 2004 bonds. As a result, LAFAs did not record interest income from the swap totaling \$1,885,170 and interest expense on the bonds totaling \$1,939,222 in the general ledger.
- LAFAs did not maintain disbursement request forms supporting draws of \$4,000,000 of its Series 2007 bond proceeds. We obtained copies of the forms directly from the fiscal agent bank for our tests of LAFAs expenditure of bond proceeds.
- Our test of 73 billings by LAFAs to the Lake Charles Cane Cooperative, LLC (LLC), disclosed that LAFAs billed to and was reimbursed by the LLC twice for five (7%) items totaling \$489,718. In addition, LAFAs did not maintain supporting documentation for items billed to the LLC totaling \$3,699,450 to indicate which items had been paid.
- LAFAs charged construction costs totaling \$154,738 for 101 of 303 (32%) invoices tested to expenses rather than capitalizing them in accordance with generally accepted accounting principles.

Failure to maintain adequate internal control over financial accounting operations increases the risk that misstatements, whether from errors or fraud, will not be prevented or detected and increases the risk of noncompliance with contracts, agreements, laws, and regulations.

LAFAs should establish adequate internal controls to ensure that management (1) performs effective supervisory reviews of transactions; (2) records transactions accurately and maintains adequate support for those transactions; (3) records transactions timely; and (4) appropriately bills for the services it provides. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 2).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether LAFA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

### Inappropriate Expenditure of Bond Proceeds

LAFA has spent bond proceeds totaling \$5,644,769, of which \$4,705,227 may not have been spent in accordance with bond indentures. On April 17, 2006, LAFA issued Series 2006B bonds totaling \$2,000,000 to complete a building in Woodworth, Louisiana, for the Louisiana Department of Agriculture and Forestry (LDAF). On March 26, 2007, LAFA issued Series 2007 bonds totaling \$6,000,000 to finance (1) renovations to office space at the LDAF headquarters office in Baton Rouge, Louisiana; (2) acquisition of new forestry firefighting equipment for LDAF; (3) acquisition, construction, and equipping of buildings and related facilities for use by LDAF at locations across Louisiana; (4) acquisition and installation of emergency generators for buildings and related facilities used by LDAF; (5) payment of expenses related to the foregoing; and (6) paying bond issuance costs. As of June 30, 2007, LAFA had expended \$1,644,769 and \$4,000,000 of the Series 2006B and Series 2007 bond proceeds, respectively.

Our tests of LAFA's bond proceeds expended as of June 30, 2007, disclosed the following:

- Of \$1,644,769 expended from the Series 2006B bond proceeds, LAFA spent \$1,051,059 on projects other than the Woodworth building; therefore, these expenditures may not be allowed by the bond indenture.
- Of the \$4,000,000 expended from the Series 2007 bond proceeds, LAFA transferred \$3,900,000 to LDAF. Of this amount, \$2,811,019 may not have been expended in accordance with the bond indenture and \$843,149 was expended for maintenance employees' salaries whose time sheets did not include documentation of hours charged to construction projects within the scope of the bond indenture.

Inappropriate expenditure of bond proceeds may result in LAFA's default on the bonds. For the 2006B bonds, the bond indenture defines a default to include failure to comply with the terms and conditions of the agreement, and the bond indenture gives the trustee the right to declare all amounts owed, totaling \$2,000,000 plus accrued interest at June 30, 2007, immediately due and payable. For the 2007 bonds, Section 10.1(c) of the bond indenture includes a failure to observe any bond covenants, agreements, or conditions in the indenture as a default, and Section 10.2 gives the trustee the right to

declare the principal of all bonds totaling \$5,700,000 plus accrued interest outstanding at June 30, 2007, immediately due and payable.

Lafa should establish controls to ensure that expenditures of bond proceeds are appropriately documented and are in accordance with bond indentures. In addition, Lafa and Ldaf should reimburse \$4,705,227 to the Series 2006B and Series 2007 bond proceeds accounts. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 3).

Lafa's responses to the findings identified previously are attached in Appendix A. We did not audit the authority's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of Lafa and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

CGEW:THC:dl

Lafa07

Management's Corrective Action  
Plans and Responses to the  
Findings and Recommendations





LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

MIKE STRAIN DVM

COMMISSIONER



May 20, 2008

Mr. Steve J. Theriot, CPA  
Office of the Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804

**Agricultural & Environmental Sciences**  
P.O. Box 3596  
Baton Rouge, LA 70821  
(225) 925-3770  
Fax: 925-3760

Dear Mr. Theriot:

**Agro-Consumer Services**  
P.O. Box 3098  
Baton Rouge, LA 70821  
(225) 922-1341  
Fax: 923-4877

Re: Inappropriate Expenditure of Bond Proceeds

The Louisiana Agricultural Finance Authority (Lafa) is in receipt of the reportable audit finding pursuant to your letter dated February 27, 2008.

**Animal Health Services**  
P.O. Box 1951  
Baton Rouge, LA 70821  
(225) 925-3962  
Fax: 925-4103

The Authority concurs with the finding that the Lafa, authorized by the prior administration, spent bond proceeds that may not have been spent in accordance with bond indentures.

**Forestry**  
P.O. Box 1628  
Baton Rouge, LA 70821  
(225) 925-4500  
Fax: 922-1356

The authority has changed its approval process for expenses and is currently in the process of correcting any possible past errors.

**Management & Finance**  
P.O. Box 3481  
Baton Rouge, LA 70821  
(225) 922-1255  
Fax: 925-6012

This general response is made with the understanding that our review was made four months into the new administration. The actions deemed necessary to correct deficiencies will require further review.

**Marketing**  
P.O. Box 3334  
Baton Rouge, LA 70821  
(225) 922-1277  
Fax: 922-1289

Sincerely,

Mike Strain DVM  
Commissioner

**Soil & Water Conservation**  
P.O. Box 3554  
Baton Rouge, LA 70821  
(225) 922-1269  
Fax: 922-2577



# LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

MIKE STRAIN DVM

COMMISSIONER



May 20, 2008

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Mr. Steve J. Theriot, CPA  
Office of the Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804

Dear Mr. Theriot:

Re: Inadequate Internal Control over Financial Accounting Operations

The Louisiana Agricultural Finance Authority (Lafa) is in receipt of the reportable audit finding pursuant to your letter dated April 1, 2008.

The Authority concurs with the finding that it has not maintained adequate internal control over its financial accounting operations. These findings occurred during the prior administration. The new administration is in the process of addressing these findings as follows:

- Lafa will implement new procedures to enhance financial accounting operations.
- Lafa will review the over-billing in the amount of \$489,718 to the Lake Charles Cane Cooperative, LLC.
- Lafa has changed its purchasing system to ensure transactions are coded properly. Each request must identify the project for which the request concerns.

This response is made with the understanding that our review was made four (4) months into the new administration.

Sincerely,

Mike Strain DVM  
Commissioner



LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

MIKE STRAIN DVM

COMMISSIONER



May 20, 2008

Mr. Steve J. Theriot, CPA  
Office of the Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804

Dear Mr. Theriot:

Re: Inaccurate and Incomplete Annual Fiscal Report

The Louisiana Agricultural Finance Authority (Lafa) is in receipt of the reportable audit finding pursuant to your letter dated January 22, 2008. This finding occurred under the prior administration.

The new administration concurs with the finding that the Louisiana Agricultural Finance Authority did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended June 30, 2007. Further, the Authority recognizes and offers the following corrective action:

- Current accounting processes do not appear to provide adequate assurances regarding the accuracy of information. The Authority will review current procedures and take action to ensure that the LAFAs Annual Fiscal Report will be properly prepared and for errors and misclassifications.
- Current internal fiscal control processes do not appear to ensure proper accountability for transactions. The Authority will take steps necessary to strengthen internal fiscal review of the Lafa's financial statements.

This general response is made with the understanding that our review was made three weeks into the new administration. The actions deemed necessary to correct deficiencies will require further review.

Sincerely,

Mike Strain DVM  
Commissioner

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